Essentials of

Services Marketing

3rd Edition

5 Distributing Services THROUGH PHYSICAL AND ELECTRONIC CHANNELS

WIRTZ LOVELOCK

Learning Objectives

5.1 Know the four key questions that form the foundation of any service distribution strategy: What? How? Where? When?

5.2 Describe the three interrelated flows that show what is being distributed.

5.3 Know how services can be distributed using three main options, and understand the importance of distinguishing between the distribution of core and supplementary services.

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Learning Objectives

5.4 Recognize the issues of delivering services through electronic channels, and discuss the factors that have fueled the growth of service delivery via cyberspace.

5.5 Understand the determinants of customers' channel preferences.

5.6 Know the importance of channel integration.

5.7 Describe the where (place) decisions of physical channels, and be familiar with the strategic and tactical location considerations.

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Learning Objectives

5.8 Describe the when (time) decisions of physical channels and the factors that determine extended operating hours.

5.9 Understand the role, benefits, and costs of using intermediaries in distributing services.

5.10 Know why franchising is such a common way of delivering services to end users.

5.11 Understand the challenges of distribution in large domestic markets.

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Learning Objectives

5.12 Be familiar with the forces that drive service firms to go international.

5.13 Appreciate the special challenges of distributing services internationally.

5.14 Explain the determinants of international market entry strategies.

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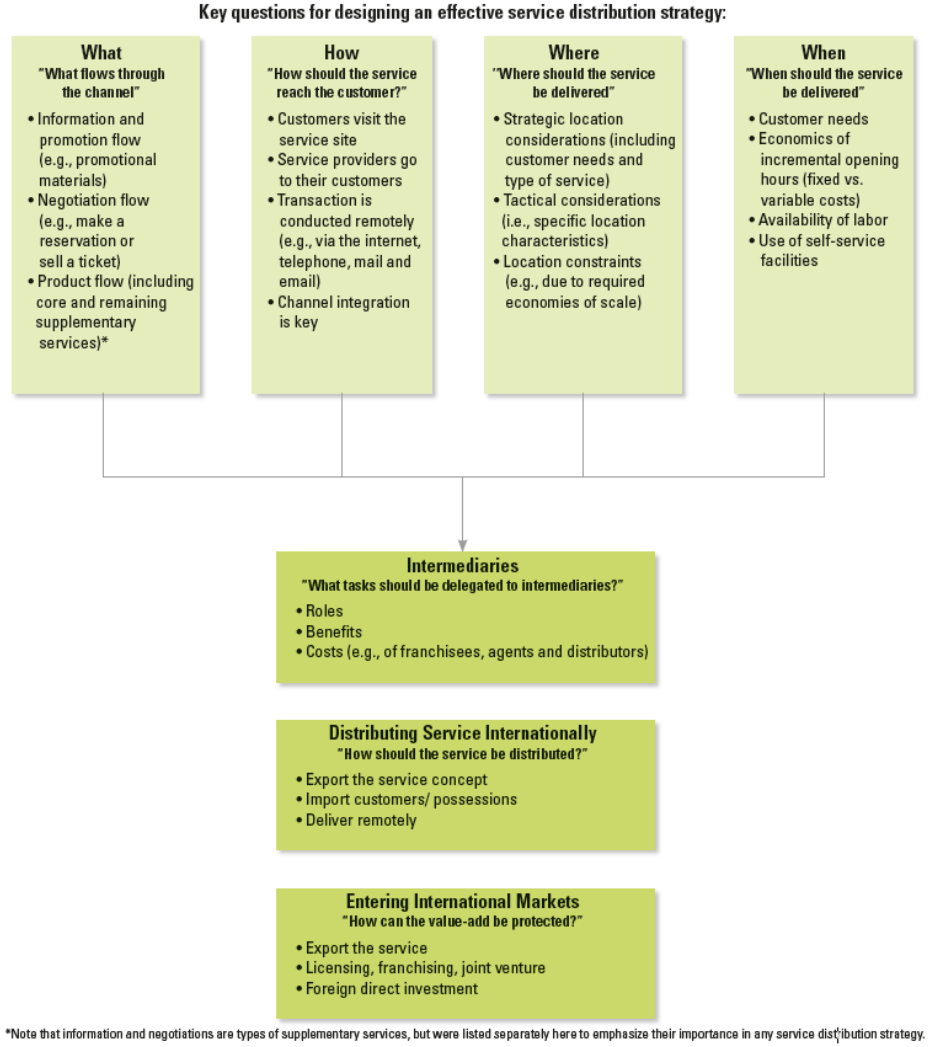
Distributing Services through Physical and Electronic Channels

5.1

Know the four key questions that form the foundation of any service distribution strategy.

The foundation of any service distribution strategy


Key questions for designing an effective service distribution strategy:
What
"What flows through the channel"
• Information and promotion flow (e.g., promotional materials)
• Negotiation flow (e.g., make a reservation or sell a ticket)
• Product flow (including core and remaining supplementary services)*
How
"How should the service reach the customer?"
• Customers visit the service site
• Service providers go to their customers
• Transaction is conducted remotely (e.g., via the internet, telephone, mail and email)
• Channel integration is key
Where
"Where should the service be delivered"
• Strategic location considerations (including customer needs and type of service)
• Tactical considerations (i.e., specific location characteristics)
• Location constraints (e.g., due to required economies of scale)
When
"When should the service be delivered"
• Customer needs
• Economics of incremental opening hours (fixed vs. variable costs)
• Availability of labor
• Use of self-service facilities
Intermediaries
"What tasks should be delegated to intermediaries?"
• Roles
• Benefits
• Costs (e.g., of franchisees, agents and distributors)
Distributing Service Internationally
"How should the service be distributed?"
• Export the service concept
• Import customers/ possessions
• Deliver remotely
Entering International Markets
"How can the value-add be protected?"
• Export the service
• Licensing, franchising, joint venture
• Foreign direct investment
*Note that information and negotiations are types of supplementary services, but were listed separately here to emphasize their importance in any service distribution strategy.

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Distribution in a Services Context

- What is being distributed?
- How should a service be distributed?
- Where should a service facility be located?
- When should service be delivered?

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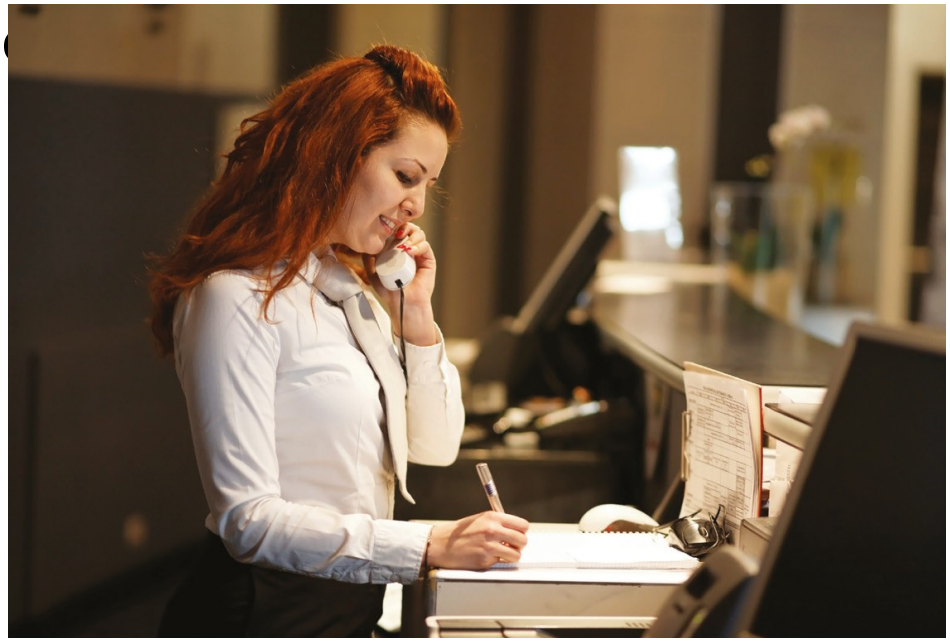
5.2

Describe the three interrelated flows that show *what* is being distributed.

What is being distributed?

- In a typical service sales cycle, distribution embraces three interrelated flows:
  - Information and promotion flow
  - Negotiation flow
  - Pro



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5.3

How services can be distributed using three main options; the importance of distinguishing between the distribution of core and supplementary services.

How should a service be distributed?

Table 5.1 Six options for service delivery.

Nature of Interaction between Customer and Service Organization	Availability of Service Outlets	
	Single Site	Multiple Sites
Customer goes to service organization	• Theater • Car service workshop	• Café house chain • Car rental chain
Service organization comes to customer	• House painting • Mobile car wash	• Mail delivery • Auto club road service
Customer and service organization transact remotely (mail or electronic communication)	• Credit card company • Local TV station	• Broadcast network • Telephone company

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5.4

Recognize the issues of delivering services through electronic channels, and discuss the growth of service delivery via cyberspace.

Delivering services through electronic channels

- Information, consultation, order-taking, billing, and payment can all be transmitted using online channels.
- Service businesses that involve physical core products are closing physical branches and shifting delivery of many supplementary serv
- Factors that attract custor to online services:
  - Convenience
  - Ease of search
  - A broader selection
  - Potential for better prices
  - 24/7 service with prompt delivery

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5.5

Understand the determinants of customers' channel preferences.

Channel Preferences Vary among Customers

- For complex and high-perceived risk services, people tend to rely on personal channels.
- Individuals with greater confidence and knowledge about a service/channel tend to use impersonal and self-service channels
- Customers who are more technology savvy
- Customers with social motives tend to use personal channels
- Convenience is a key driver of channel choice

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5.6

Know the importance of channel integration

The importance of channel integration

- A service that is delivered through multiple channels requires a seamless and consistent user experience.
- New delivery channels are prone to inconsistent and disjointed experiences for customers
- Service providers need effective pricing strateg pture it through the app

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5.7

Describe the *where* (place) decisions of physical channels, and be familiar with the strategic and tactical location considerations.

Strategic and tactical location considerations

- To develop a location strategy, a firm must understand customer needs and expectations, competitive activity, and the nature of the service operation.
- The following factors need to be considered for selecting a specific site:
  - Population size and characteri
  - Pedestrian and vehicular traffi and its characteristics
  - Convenience of access for customers
  - Competitors in this area
  - Nature of nearby businesses a stores
  - Availability of labor
  - Availability of site locations, rental costs and contractual conditions, and regulations

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Strategic and tactical location considerations

Places of service delivery

- Ministered:
  - Creating many small service factories to maximize geographic coverage (automated kiosks)
  - Separating front and back stages of operation (Taco Bell)
  - Purchasing space from another provider in complementary field (Dunkin Donuts with Burger King)
- Locating in Multipurpose Facilities:
  - Proximity to where customers live or work (service stations)

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Strategic and tactical location considerations

Places of service delivery

- Cost, productivity and access to labor are key determinants to locating a service facility.
- Locational constraints:
  - Operational requirements (airports)
  - Geographic factors (ski resorts)
  - Need for economies of scale (hospitals)

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5.8

Describe the *when* (time) decisions of physical channels and the factors that determine extended operating hours.

Time of Service Delivery

- Traditionally, schedules were restricted.
  - Service availability limited to daytime, 40–50 hours a week
- Today:
  - For flexible, responsive service operations
    - 24/7 service – 24 hours a day, 7 days a week, around the world

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5.9

Understand the role, benefits, and costs of using intermediaries in distributing services

The Role of Intermediaries

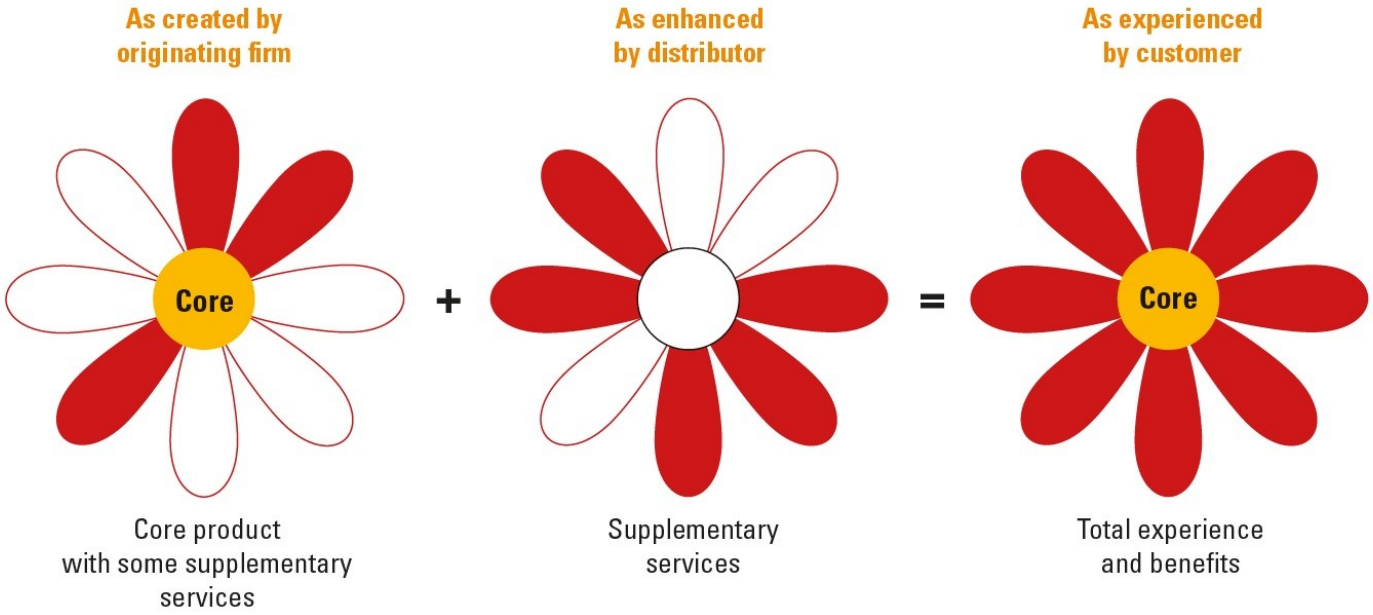

Figure 5.13 Splitting responsibilities for service delivery.

- Challenges for original supplier:
  - Act as guardian of overall process
  - Ensure that each element offered by intermediaries fits overall service concept

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5.10

Know why franchising is such a common way of delivering services to end users.

Franchising

- Popular way to expand delivery of effective service concept, without a high level of monetary investments compared to rapid expansion of company-owned and -managed sites
- Franchisor provides training, equipment and support marketing activities. Franchisees invest time and finance, and follow copy and media guidelines of franchisor
- Growth-oriented firms like franchising because franchisees are motivated to ensure good customer service and high-quality service operations

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Franchising

- Study shows significant attrition rate among franchisors in the early years of a new franchise system:
  - One third of all systems fail within first four years
  - Three fourths of all franchisors cease to exist after 12 years
- Disadvantages of franchising:
  - Some loss of control over delivery system and, thereby, over how customers experience actual service
  - Effective quality control is important but yet difficult
  - Conflict between franchisees may arise especially as they gain experience

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Franchising

- Alternative: license another supplier to act on the original supplier's behalf to deliver core product, for example:
  - Trucking companies
  - Banks selling insurance products

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5.11

Understand the challenges of distribution in large domestic markets

Challenges of distribution in large domestic markets

- There are special challenges in federal nations covering a large geographic area:
  - the distances involved and the existence of multiple time zones
  - multiculturalism is also an issue, leading to segmenting issues
  - there are differences between the laws and tax rates of the various states or provinces and those of the respective federal governments

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5.12

Be familiar with the forces that drive service firms to go international.

Forces that drive service firms to go international

- Factors favoring adoption of transnational strategies:
  - Market Drivers
    - common customer needs across many countries
    - global customers who de
      suppliers around the worl
    - availability of internationa
      channels
  - Competition Drivers
    - presence of competitors
      from different
    - Countries
    - interdependence of count
    - transnational policies of t
      competitors

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Forces that drive service firms to go international

- Factors favoring adoption of transnational strategies:
  - Technology Drivers
    - enhanced performance and capabilities in telecommunications, computerization, and software
    - miniaturization of equipment
    - digitization of voice, video, and text
    - the growing availability of broadband telecommunication channels
  - Cost Drivers
    - economies of scale
    - sourcing efficiencies
    - improved performance and lower operating costs for telecommunications and transportation

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Forces that drive service firms to go international

- Factors favoring adoption of transnational strategies:
  - Government Drivers
    - favourable trade policies
    - compatible technical standards
    - common marketing regulations

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5.13

Appreciate the special challenges of distributing services internationally.

Challenges of distributing services internationally

- Airline access:
  - If one country is willing to allow entry by a new carrier but the other is not, access will be blocked
  - Capacity limits at certain major airports lead to denial of new or additional landing rights for foreign airlines
- Financial, healthcare, and telecommunications service markets are typically very highly regulated
- Companies that offer a global reservation service and connect this with local facilities and/or micro entrepreneurs often face regulatory roadblocks

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5.14

Explain the determinants of international market entry strategies

Determinants of international market entry strategies

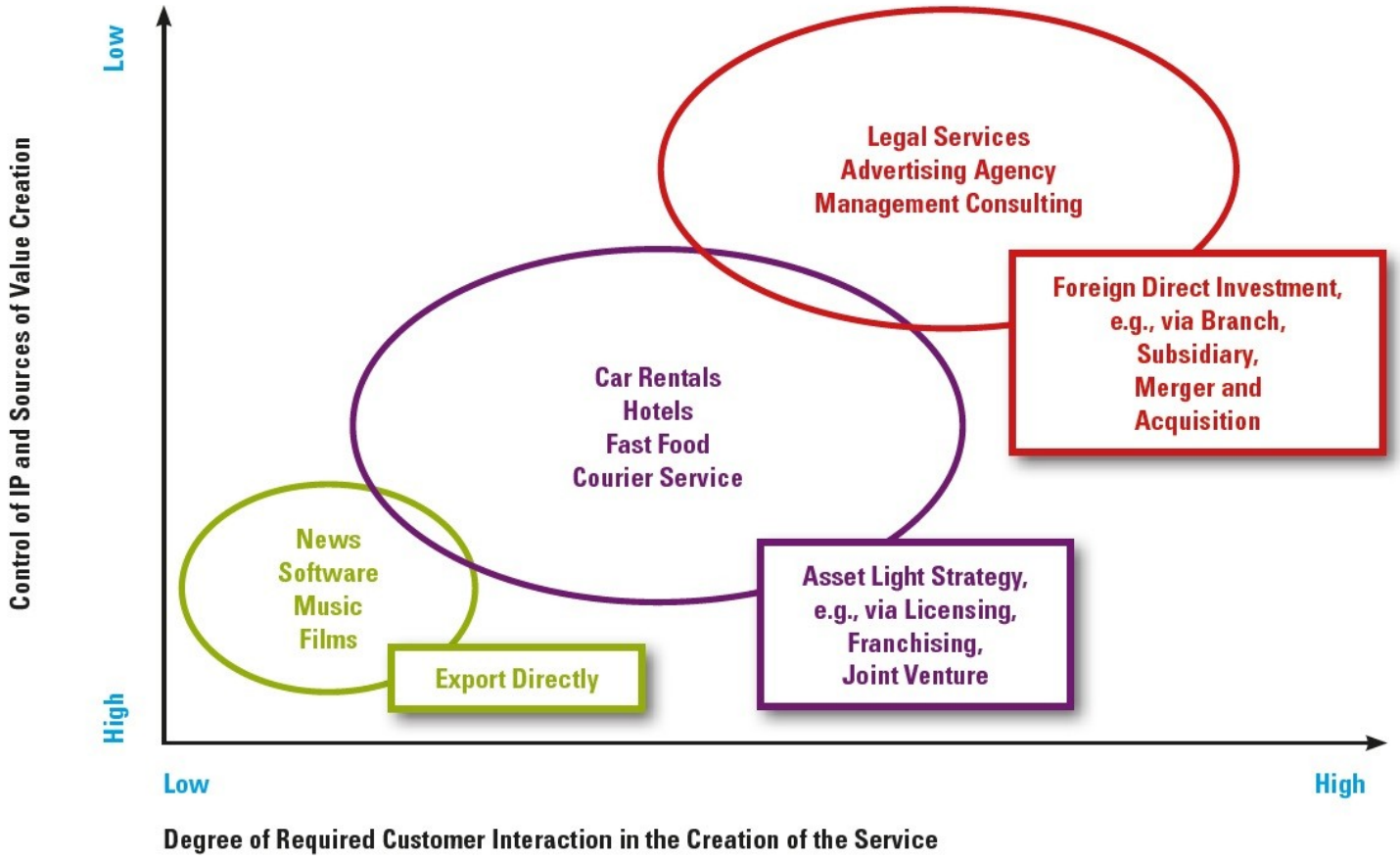

Figure 5.20 How to go international?

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Thank You.